CT 18 1983

5665 GAO/AFMD-83-100

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

COMPLETED 9

Reviews Of The Audits Of The National Credit Union Administration Central Liquidity Facility's Financial Statements For The Fiscal Years Ended September 30, 1982 And 1981

ORIGINAL

GAO reviewed the independent certified public accountant's audits of the National Credit Union Administration Central Liquidity Facility's (CLF's) financial statements for the fiscal years ended September 30, 1982 and 1981. GAO found nothing which would indicate that the independent certified public accountant's opinion on the financial statements is inappropriate or cannot be relied on. GAO therefore concurs with the opinion.

In the opinion of CLF's independent certified public accountant, CLF's financial statements present fairly the financial position of CLF at September 30, 1982 and 1981, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

GAO/AFMD-83-100
SEPTEMBER 30, 1983

BEST DOCUMENT AVAILABLE

Request for copies of GAO reports should be sent to:

U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20760

Telephone (202) 275-6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are $3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are $1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".

GA 1.13: AFMD-83-100

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-202052

To the President of the Senate and the
Speaker of the House of Representatives

This report presents the results of our reviews of Price Waterhouse's audits of the balance sheets of the National Credit Union Administration Central Liquidity Facility (CLF) as of September 30, 1982 and 1981, and the related statements of operations and retained earnings and changes in financial position for the years then ended. Our reviews were made pursuant to the provisions of the National Credit Union Central Liquidity Facility Act (12 U.S.C. 1795h), which requires the Comptroller General to audit CLF under such rules and regulations as the Comptroller General may prescribe.

In order to avoid unnecessary duplication and expense and to make the most efficient use of our available resources, we are relying on the work and report of CLF's independent certified public accountant. We made inquiries, examined Price Waterhouse's workpapers, and performed analytical procedures to determine the quality of the auditor's work and the extent to which we could rely on it. We reviewed the adequacy of the auditor's work on internal controls and compliance with laws and regulations.

In the opinion of Price Waterhouse, CLF's financial statements present fairly the financial position of CLF at September 30, 1982 and 1981, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. During our reviews, we found nothing which would indicate that Price Waterhouse's opinion on CLF's fiscal years 1982 and 1981 financial statements is inappropriate or cannot be relied on. The auditor's work did not disclose any material internal control weaknesses or noncompliance with laws and regulations. We concur with and transmit to the Congress Price Waterhouse's opinion on CLF's financial statements. The opinion and financial statements are included as appendix I.

We are sending copies of this report to the Director, Office of Management and Budget, and to the National Credit Union Administration's board of directors.

Charles A. Bowsher

Comptroller General
of the United States

APPENDIX I

Price Waterhouse

1801 K STREET, N.W.
WASHINGTON, DC 20006
202 296-0800

November 5, 1982

To the Board of the National Credit
Union Administration and
the National Credit Union Administration
Central Liquidity Facility

In our opinion, the accompanying balance sheets and the related statements of operations and retained earnings and of changes in financial position present fairly the financial position of the National Credit Union Administration Central Liquidity Facility at September 30, 1982 and 1981, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

APPENDIX I

National Credit Union Administration
Central Liquidity Facility
BALANCE SHEETS
(Expressed in thousands of dollars)
(Notes 1 and 2)

	September 30	
	1982	**1981**
Assets		
Cash	**$ 46**	$ 6
Investments (Note 5)	**89,244**	79,112
Loans to members less allowance for loan losses of $1,149 at September 30, 1982 (Notes 2 and 4)	**129,330**	101,025
Accrued interest receivable	**2,690**	4,737
Other assets (Note 6)	**132**	1,036
Total assets	**$221,442**	$185,916
Liabilities and Equity		
Liabilities		
Notes payable (Note 7)	**$130,066**	$101,273
Member deposits (Note 8)	**16,845**	14,131
Accrued interest payable	**1,995**	2,810
Accounts payable and other liabilities	**188**	166
Total Liabilities	**$149,094**	$118,380
Equity		
Capital stock - required (Note 8)	**72,139**	67,342
Retained earnings	**209**	194
Total equity	**$ 72,348**	$ 67,536
Commitments and Contingencies (Notes 4, 10, and 12)		
Total liabilities and equity	**$221,442**	$185,916

BEST DOCUMENT AVAILABLE

APPENDIX I

National Credit Union Administration
Central Liquidity Facility
STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
(Expressed in thousands of dollars)
(Notes 1 and 2)

	Year ended September 30	
	1982	1981
Income		
Interest on loans to members	$10,653	$10,250
Income from investments	12,036	11,105
Total income	$22,689	$21,355
Expenses		
Personnel services	383	405
Personnel benefits	38	35
Employee travel	28	35
Shipping and delivery	6	3
Rent, communications and utilities	93	105
Printing and reproduction	24	18
Other services	425	327
Supplies and materials	7	6
Depreciation and amortization	267	263
Provision for loan losses (Note 2)	1,149	
Other, principally write-off of organization costs (Note 6)	646	
Total operating expenses	$ 3,066	$ 1,197
Interest:		
Federal Financing Bank	$10,180	$10,682
Member deposits	1,572	1,138
Total expenses	$14,818	$13,017
Income before income taxes	7,871	8,338
Income taxes (Note 10)	3	46
Net income	7,868	8,292
Dividends to members (Note 8)	7,853	8,196
Addition to retained earnings	15	96
Retained earnings at beginning of period	194	98
Retained earnings at end of period	$ 209	$ 194

BEST DOCUMENT AVAILABLE

APPENDIX I

National Credit Union Administration
Central Liquidity Facility
STATEMENTS OF CHANGES IN FINANCIAL POSITION
(Expressed in thousands of dollars)

	Year ended September 30	
	1982	**1981**
Financial resources were provided by:		
Operations		
Net income	**$ 7,868**	$ 8,292
Add items not affecting cash and investments during the year:		
Depreciation and amortization	**267**	263
Provision for loan losses	**1,149**	
Other, principally write-off of organization costs	**646**	
	$ 9,930	$ 8,555
Issuance of required capital stock	**10,428**	23,073
Addition to member deposits	**40,226**	25,700
Borrowings	**132,766**	133,206
Loan repayments	**52,304**	52,022
Other, net	**1,245**	(697)
Total financial resources provided	**$246,899**	$241,859
Financial resources were used for:		
Redemption of required capital stock	**$ 5,631**	$ 3,877
Withdrawal of member deposits	**37,512**	16,961
Dividends	**7,853**	8,196
Borrowings repayments	**103,973**	121,865
Loan disbursements	**81,758**	67,580
Total financial resources used	**$236,727**	$218,479
Increase in cash and investments	**$10,172**	$23,380

BEST DOCUMENT AVAILABLE

APPENDIX I

National Credit Union Administration Central Liquidity Facility

NOTES TO FINANCIAL STATEMENTS
September 30, 1982 and 1981

Note 1 - Organization and Purpose

The National Credit Union Administration Central Liquidity Facility ("the CLF") was created by the National Credit Union Central Liquidity Facility Act ("the Act"). The CLF is designated as a mixed-ownership government corporation under the Government Corporation Control Act. It exists within the National Credit Union Administration and is managed by the National Credit Union Administration Board. The CLF became operational on October 1, 1979.

The purpose of the CLF is to improve general financial stability by meeting the liquidity needs of credit unions.

Note 2 - Significant Accounting Policies

Basis of Accounting

The CLF maintains its accounting records on the accrual basis of accounting.

Allowance for Loan Losses

Loans to members are made on both a short-term and long-term basis. The CLF obtains a security interest in the assets of the borrower on all loans.

The CLF evaluates the collectibility of its loans to members through examination of the financial condition of the individual borrowing credit unions and the credit union industry in general. After giving consideration to security interests, guarantees, pledged collateral and the state of the credit union industry environment, an allowance for loan losses in the amount of $1,149,000 was established as of September 30, 1982 (no allowance was considered necessary at September 30, 1981).

Investments

All of the CLF's investments are short-term with no maturities in excess of one year. These investments are recorded at cost, which approximates market value.

Furniture and Office Equipment

Significant purchases of furniture and office equipment are recorded at cost.

Note 3 - Government Regulations

The CLF was created by the Act and is subject to various Federal laws and regulations. The CLF's operating budget requires Congressional approval and the CLF may not make loans to members for the purpose of expanding credit union loan portfolios. The CLF's investments are restricted to obligations of the United States Government and its agencies, deposits in federally insured financial institutions and shares and deposits in credit unions. Borrowing is limited to the lesser of $600 million or twelve times equity and capital subscriptions on-call. For fiscal year 1982, gross lending activity was limited to $4.4 billion. At September 30, 1982 and 1981, the CLF was in compliance with these limitations.

Note 4 - Loans to Members

Loans were made only to member credit unions. These loans carry interest rates which ranged from 8.69% to 12.81% at September 30, 1982 (9.95% to 19.75% at September 30, 1981). The loans mature as follows (dollars in thousands):

	September 30	
Maturing in fiscal year	1982	1981
1982	$ —	$ 13,122
1983	52,916	3,600
1984	77,563	78,613
1985	—	4,700
1986	—	990
	130,479	101,025
Less allowance for loan losses (Note 2)	(1,149)	—
	$129,330	$101,025

The CLF may also provide members with 90-day loan commitments. At September 30, 1982 there were approximately $26,600,000 in outstanding commitments ($500,000 at September 30, 1981).

Note 5 - Investments

Funds not currently required for operations were invested as follows (dollars in thousands):

	September 30	
	1982	1981
Time deposits	$77,000	$63,000
Certifictes of deposit	—	9,998
Deposits with members	9,644	6,114
Overnight securities	2,600	—
	$89,244	$79,112

Note 6 - Other Assets

The composition of other assets was as follows (dollars in thousands):

	September 30	
	1982	1981
Organization costs (net of $409 in accumulated amortization)	—	$ 888
Fixed assets (net of $6 in accumulated depreciation)	—	22
Other accounts receivable	—	15
Prepaid expenses	$ 12	45
Deferred income taxes	120	66
	$132	$1,036

As of September 30, 1981 it was the policy of the CLF to amortize organization costs over 5 years and depreciate fixed assets over lives ranging from 3 to 10 years. During the 1982 fiscal year, the CLF continued to record amortization and depreciation (amounting to $267,000 as of September 30, 1982) of organization costs and fixed assets. At September 30, 1982 however, these assets were deemed to have no further future value. Accordingly, their remaining unamortized book value of $646,000 was written-off and is presented separately as a charge to income in the statement of operations and retained earnings.

BEST DOCUMENT AVAILABLE

APPENDIX I

Note 7 - Notes Payable

Substantially all of the CLF's borrowings have been from the Federal Financing Bank. The interest rates on these obligations are fixed and range from 7.4% to 11.8% at September 30, 1982 (9.5% to 16.6% at September 30, 1981). Interest is generally payable upon maturity. These notes mature as follows (dollars in thousands):

Maturing in fiscal year	September 30, 1982	September 30, 1981
1982	—	$ 13,370
1983	$ 78,466	3,600
1984	51,600	78,613
1985	—	4,700
1986	—	990
	$130,066	$101,273

The Secretary of the Treasury is authorized by the Act to lend up to $500 million to the CLF in the event that the Board certifies to the Secretary that the CLF does not have sufficient funds to meet the liquidity needs of credit unions. This authority to lend is limited to such extent and in such amounts as are provided in advance by Congressional Appropriations Acts. On December 23, 1981 President Reagan signed PL 97-101 which provided $100 million of permanent indefinite borrowing authority which may be provided by the Secretary of the Treasury to the CLF to meet emergency liquidity needs of credit unions.

Note 8 - Capital Stock and Member Deposits

The required capital stock account represents subscriptions remitted to the CLF by member credit unions. Regular members' required subscription equal one-half of one percent of their paid-in and unimpaired capital and surplus, one-half of which amount is required to be remitted to the CLF. Agent members' required subscription equal one-half of one percent of the paid-in and unimpaired capital and surplus of all of the credit unions served by the agent member, one-half of which amount is required to be remitted to the CLF. In both cases the remaining one-half of the subscription is required to be held in liquid assets by the member credit unions subject to call by the National Credit Union Administration Board. These unremitted subscriptions are not reflected in the CLF's financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions' paid-in and unimpaired capital and surplus. Dividends are declared and paid on required capital stock.

Member deposits represent amounts remitted by members over and above the amount required for membership. Interest is paid on member deposits at a rate equivalent to the dividend rate paid on required capital stock.

Note 9 - Services Provided by the National Credit Union Administration

The National Credit Union Administration provides the CLF with miscellaneous services and supplies. In addition, the employees of the CLF are paid by the National Credit Union Administration. The CLF reimburses the National Credit Union Administration on a monthly basis for these items. Total reimbursements amounted to approximately $513,000 as of September 30, 1982 ($545,000 as of September 30, 1981).

Note 10 - Income Taxes

Legislation has been proposed in Congress that would exempt the CLF from Federal, State, municipal and local taxation, except taxes on real property. At the date of these financial statements, however, the Congress has not acted on the proposal. Further, the CLF has received an opinion by external legal counsel that a court, having the appropriate jurisdiction and authority, would determine the CLF to be exempt from income taxation both under the Internal Revenue Code and the laws of the District of Columbia.

The Department of the Treasury, however, has indicated that specific legislation is required for the CLF to become exempt from Federal income tax. Additionally, in July 1982 the Internal Revenue Service disallowed the CLF's claim for refund of approximately $162,000 of Federal income taxes paid for the 1981 and 1980 fiscal years, finding that the CLF is not exempt from Federal income tax.

The CLF is appealing ths decision by the I.R.S. However, until the aforementioned legislation is passed or until the CLF receives a favorable resolution of their appeal, provision for income taxes will be made by a charge to income in the financial statements.

Taxable income differs from net income as shown in the statement of operations and retained earnings primarily by the amount of dividends paid to members, which are deducted as an expense for tax purposes, and by the write-off of other assets, principally organization costs, which must be amortized for tax purposes over the ensuing two taxable years (see Note 6).

Note 11 - Pension Plan

The employees of the CLF are participants in the Civil Service Retirement Plan. The Plan is a contributory defined benefit pension plan covering substantially all of the employees of the CLF. Pension expense for the years ended September 30, 1982 and 1981 was approximately $24,400 and $26,900, respectively.

Note 12 - Lease

The CLF leases office space jointly with the National Credit Union Administration under a non-cancellable operating lease expiring in 1994. Under the terms of this lease, the CLF and the National Credit Union Administration are jointly and severally liable for future minimum lease payments as of September 30, 1982 as follows (dollars in thousands):

Year ended September 30	
1983	$ 886
1984	886
1985	964
1986	980
1987	980
Thereafter	7,128
	$11,824

The CLF's portion of these lease payments (rent expense) for the years ended September 30, 1982 and 1981 was $36,400 and $38,400, respectively.

BEST DOCUMENT AVAILABLE